

# CHINA SPOTLIGHT

## Spotlight On: Auto Sector

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### THE AUTO SECTOR IN CHINA

The opening of China's auto sector, as outlined in China's Protocol of Accession to the World Trade Organization (WTO), presents many opportunities for U.S. companies. Within a decade, demand for motor vehicles in China is expected to expand from 2 million to 10 million units. This domestic growth stems from movement towards a consumer-based market created by an emerging middle class and new government policies encouraging private car ownership.

Among the new government policies is a sizable tariff reduction that will reduce duties on auto imports to 25 percent by 2006. Prior to joining the WTO, Chinese auto tariffs were 100 percent. Current rates are just over 50 percent. This reduction has led to a 75 percent rise in China's auto imports from the world so far this year. The majority of the increase is due to substantially larger volumes of imports from Japan, Korea and France.

The United States, while remaining one of the top five exporters of cars to China, has seen virtually no growth in auto exports to China in the first nine months of this year. Although there could be many factors contributing to the U.S. industry's lower than average performance, it is worth noting that U.S. auto producers have, for many years, supplied the Chinese market with locally produced cars. Thus U.S. exports of auto parts increased more than 60 percent in the first nine months of 2002 to \$76 million.

Although pleased with China's tariff rate reduction, the U.S. auto industry has expressed concern over China's allocation of auto quotas, lack of transparency in granting trading rights, development of internationally-inconsistent engineering and safety standards, and restrictions on auto financing.

### Auto Quotas

China's WTO commitments require auto quotas to increase 15% annually through January 1, 2005, at which time quotas will expire and autos will be freely traded. Current (2002) auto quotas are valued at \$7.9 billion, and will increase to \$8.6 billion in 2003.

To date, it is not clear how much of the \$7.9 billion quota for 2002 has been filled. Automakers from the U.S., E.U. and Japan have expressed concern over the transparency of the quota allocation process. Industry reports indicate that quota allocations to qualified applicants, which were to be allocated by January 1, 2002, were delayed nearly four months.

### *Snapshot of Autos in China*

#### Chinese Auto Imports - HS 8703

Year-to-Date (Jan-Sept)

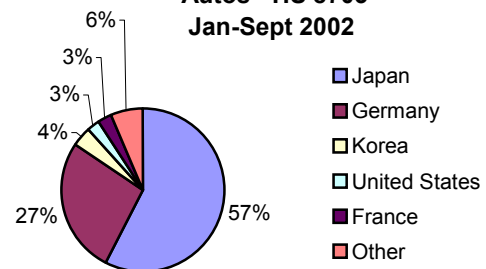
(Millions USD)

Country	2000	2001	2002
World	520.39	1,063.80	1,863.02
Japan	304.30	451.89	1,073.31
Germany	121.14	401.44	500.75
Korea	8.44	34.30	70.09
United States	15.28	50.31	50.14
France	1.42	12.35	48.18
Other	69.80	113.51	120.55

#### Percentage Share of Imports

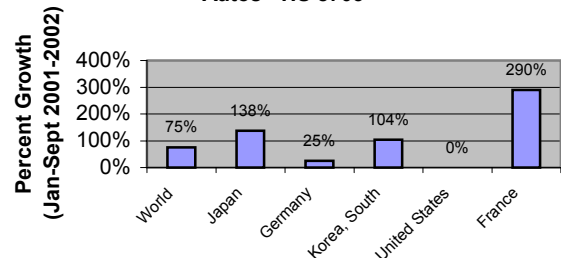
Autos - HS 8703

Jan-Sept 2002



#### Chinese Auto Imports by Country

Autos - HS 8703



#### Chinese Auto Part Imports - HS 8708

Year-to-Date (Jan-Sept)

(Millions USD)

Country	1999	2000	2001
World	1,533.73	1,825.51	2,138.71
Germany	546.19	849.11	913.73
Japan	404.58	563.43	651.04
Canada	325.23	80.76	146.55
United States	65.07	52.21	76.07
Brazil	4.17	47.06	56.57
Other	188.48	232.93	294.75

Source: World Trade Atlas - Chinese Import Data

### **Trading and Distribution Rights**

Prior to China's WTO accession, the right to import or export in China was strictly limited, and related distribution services, such as maintenance and repair, and the distribution of imported products was generally prohibited.

In joining the WTO, China agreed to phase in expanded distribution and trading rights for foreign and domestic companies across a broad range of products, including autos and auto parts, over three years. The U.S. auto industry has expressed concern that China's implementation of these commitments has not been fully transparent.

Pursuant to China's WTO commitments, minority foreign-owned enterprises will be granted distribution rights as of December 11, 2002, however, no rules or regulations governing these rights (e.g., who qualifies, what licenses are needed, how to apply...) have been promulgated. The lack of regulations is causing great concern in the auto sector, as foreign invested entities are unclear how best to apply for 2003 quota allocations.

### **Auto Standards**

In the past the certification process for domestic and foreign vehicles was handled by two separate government agencies. China is presently trying to consolidate its certification system and issue standards that are consistent with international norms. China has made some progress in this regard by issuing environmental standards that comply with European standards. Many safety and engineering standards, however, are not yet internationally compliant.

A developing concern to the auto industry is a potential new policy that would require original equipment manufacturers to have products tested at government testing centers. Foreign automakers fear the government centers may fail to protect proprietary information.

### **Auto Financing**

Under the terms of China's WTO accession, China agreed to allow foreign non-bank financial institutions to offer auto loans without limitations on market access or national treatment. To date, China's commercial banks are the only entities to offer auto loans. China circulated draft measures for comment in June that permitted foreign non-bank financial institutions to issue auto loans, but imposed high capital and asset requirements. Recently, China issued a revised draft of these measures. Comments on the revised draft were due October 31, 2002.

### **Commerce's Role**

The Commerce Department works closely with U.S. industry representatives and other government agencies to address these issues with the appropriate Chinese authorities. The China Team monitors U.S. auto exports to China and makes every effort to ensure that China implements its WTO commitments in a fair and transparent manner.

## **China Facts**

Total Population (July 2002 est.).....1.284 billion  
Total Labor Force (2000 est.).....706 million  
Literacy (Total Population).....81.5%  
Government.....Communist Party-led state  
President.....Jiang Zemin  
Vice President.....Hu Jintao  
Premier.....Zhu Rongji  
Language.....Mandarin; many local dialects  
Currency.....Yuan (often called Renminbi in China)  
Capital.....Beijing  
Elections: President and vice president elected by the National People's Congress for five-year terms; elections last held 16-18 March 1998 (next to be held in March 2003); premier nominated by the president, confirmed by the National People's Congress

### **Domestic Economy**

	1999	2000	2001	2002
GDP (RMB Trillions)	8.21	8.94	9.66	10.39
GDP growth rate (%)	7.1	8.5	8.0	7.5
GDP per capita (US\$)	769	856	878	900
Retail Price Inflation (%)	-1.4	-0.5	0.0	0.5
Unemployment (%)	3.3	3.1	4.0	4.0
Total For. Ex. Reserves (Billions USD)	155	166	180	190
Avg. exchange rate (RMB/\$)	8.28	8.27	8.27	8.50
Foreign Debt (\$ Bn)	151.8	145.7	140.0	135.0

Source: Chinese government statistics

### **Growth in U.S. Exports to China**

Rate for Jan-Sept ('01-'02): 14.2%  
Avg. Annual Rate ('96-'01): 10.4%

### **Growth in Chinese Exports to U.S.**

Rate for Jan-Sept ('01-'02): 19.1%  
Avg. Annual Rate ('96-'01): 14.9%

### **Total U.S. Exports to China**

Jan-Sept 2002: \$15.939 billion  
Jan-Dec 2001: \$19.182 billion

### **Total Chinese Exports to the U.S.**

Jan-Sept 2002: \$88.762 billion  
Jan-Dec 2001: \$102.278 billion

### **Top 5 U.S. Exports to China (Jan-Sept)**

Machinery	\$3.017 billion
Electrical Machinery	\$2.932 billion
Aircraft, Spacecraft	\$2.655 billion
Optics, Medical Instr., Etc.	\$0.873 billion
Plastics	\$0.694 billion

### **Top 7 U.S. Export Markets (Jan-Sept)**

Canada	\$120.207 billion
Mexico	\$72.329 billion
Japan	\$38.788 billion
United Kingdom	\$25.206 billion
Germany	\$19.614 billion
South Korea	\$16.766 billion
<b>China</b>	<b>\$15.939 billion</b>

Source: World Trade Atlas – U.S. Export Data